The Paradox of Fortress China

Belt and Road as Hedge Against Crisis: How Strategic Security Constraints Reshape Global Economic Integration

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Abstract

This report examines the strategic paradox at the heart of Fortress China: Beijing's simultaneous push to reduce exposure to external instability while maintaining growth predicated on global economic integration. Drawing on macroeconomic data, Belt and Road Initiative financing structures, and China's Overall National Security Concept, the analysis traces the evolution from post-2008 crisis debt-financed infrastructure expansion through COVID-driven supply-chain disruptions to the current institutionalization of fortress strategy in central planning. The report examines Dual Circulation as China's attempted resolution of this contradiction, the Belt and Road Initiative as the international expression of fortress logic, and the structural vulnerabilities created by massive overseas capital deployment across 150 countries. It further analyzes the financial exposure of approximately $500 billion to $1.2 trillion in outstanding BRI debt, the labor reabsorption challenge of several hundred thousand overseas Chinese workers in a conflict scenario, and the persistence of critical dependencies on overseas energy and technology imports despite fortress positioning. The report concludes that Fortress China does not eliminate vulnerability but redistributes it across a broader geographic and political landscape, and that its resilience can only be tested under conditions of generalized conflict that would itself invalidate the strategic assumptions upon which the fortress was built.

Keywords: Belt and Road Initiative, China Economic Development, China Export Controls, China Foreign Investment, China Geopolitical Strategy, China Geoeconomics, China Manufacturing, China Supply Chains, China-Europe Relations, Chokepoint Control, COSCO, Debt Financing, Dual Circulation, Export-Import Bank, Global Economic Integration, Global Supply Chains, Infrastructure Investment, Overseas Strategic Assets, Resilience Strategy, SOE Banking, Strait of Hormuz, Strategic Hedging, U.S.-China Competition, Vulnerability Redistribution

Category: Analysis

1. Introduction: Context Versus Cause

The crisis in the Strait of Hormuz did not create Fortress China. It validated it. Western commentary increasingly portrays Beijing’s push for a fortress economy as a reactive response to mounting geopolitical shocks—from the Ukraine war and the ongoing U.S.–China trade confrontation to the crisis in Hormuz. But this framing mistakes context for cause.

Despite the strain that higher energy and commodity prices impose, China is not merely reacting to successive crises. It is acting on a strategic worldview more than a decade in the making. Even before COVID, Ukraine, and now Hormuz, Beijing was explicitly preparing for an international environment defined by persistent disruption, fragmentation, and great-power competition.

> *"Fortress China is not a retreat from globalization but an attempt to redesign China's participation in it."*

Within this framework, crises like Hormuz are not shocks requiring strategic adjustment; they are proof of concept. They reinforce China's long-standing assessment that systemic instability is becoming a baseline condition of international politics. Fortress China is therefore not a retreat from globalization but an attempt to redesign China's participation in it.

2. The Central Contradiction

Through the Belt and Road Initiative (BRI), Beijing seeks to reduce exposure to external disruption in peacetime by building alternative trade corridors and strategic infrastructure. Yet those same networks create new pathways through which external instability could reverberate back into China's domestic economy in the event of a generalized conflict. The question, then, is not only whether Fortress China reduces vulnerability, but how and where that vulnerability is redistributed.

China's rise was built on a very different logic. The formula behind its rapid development and current geoeconomic leverage has been precisely that it remains politically closed but economically open. State-guided industrial policy and state-owned enterprise (SOE) dominance in strategic sectors have been complemented by deep global economic interdependence built on Western demand, foreign direct investment, and technology sharing.

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3. The Origins: Post-2008 Crisis Response

The foundations of Fortress China were laid in the wake of the 2008 crisis, when concerns about demand vulnerability and overexposure to global markets prompted a strategic repositioning. China effectively spent its way out of the 2008 economic crisis, investing enormously in debt-financed infrastructure and urban development.

This helped avert layoffs and the social instability that would likely have accompanied a collapse in external demand. In the process, it redirected significant labor capacity, over-developed state-owned construction enterprises, and drove an enormous expansion of credit through state-owned banks. The new model generated long-term structural imbalances, as China traded debt financing for the promise of future economic development on a new material basis.

The period also saw the consolidation of Xi Jinping's power and the emergence of the Overall National Security Concept, which increasingly treated economic development and national security as mutually reinforcing. The U.S.–China trade confrontation, intellectual property disputes, and expanding export controls after Trump's

2016 election only deepened the CCP's conviction that globalization was increasingly shaped by national security competition.

4. Dual Circulation as Strategic Resolution

Dual Circulation is China's answer to the central problem posed by Fortress China: how to remain globally integrated while developing internally to reduce vulnerability. It is a strategy for managing the strategic tensions of the fortress posture. It aims to strengthen domestic production and consumption while selectively preserving the benefits of interdependence in global markets.

It seeks to make China's domestic economy the primary engine of growth, using SOE banks to expand indigenous industries and increase household consumption as a share of GDP. The goal is to develop internal circulation enough to sustain China in the event of a disruption in external circulation amid a generalized conflict. Externally, the strategy improves export control mechanisms and strengthens security guarantees for BRI projects while not abandoning the open economic structure that has fostered Chinese growth in past decades.

5. Belt and Road as Fortress Expression

BRI is where the logic of Fortress China becomes concrete, blending security and economic development. Each project is a microcosm of the fortress concept itself. Like China's wider reliance on overseas markets for industrial output, BRI projects bring continued overseas contracts and financial revenues that boost domestic GDP.

BRI's strategic logic is straightforward: reduce China's dependence on vulnerable trade routes while increasing control over the infrastructure of global commerce. Use SOEs to finance and build alternative routes while acquiring operating rights and creating long-term technical and operational dependence on Beijing.

> *"BRI does not eliminate vulnerability; it redistributes it across a far broader geographic and political landscape, building in strategic redundancy across 150 countries."*

While financing for the initial China–Europe route came largely from central and local government coffers, BRI projects have since overwhelmingly been built using loans to host governments or firms and direct equity investments. Collectively, BRI projects represent well over $1 trillion in contracted investment across Asia, Europe, Africa, and Latin America. As much as half of that number is reportedly either direct investment in equity and operations or BRI-related loans.

6. Financial Exposure and Vulnerability

By 2026, the Export-Import Bank of China alone had almost $300 billion in outstanding BRI loans. Significant burdens remain across all these projects, with estimates placing outstanding debts at 75 to 95 percent of principal. The exact amount of total debt held by China's policy and commercial banks for BRI projects is unknown because balance sheets are not public, but estimates range from $500 billion to over $1.2 trillion.

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The massive investment effectively gives Beijing a vast portfolio of overseas strategic infrastructure, equity stakes, and strategic operating rights beyond its borders. But that same model also creates significant financial exposure. In a potential protracted conflict, a few scenarios would create severe strains.

First, the BRI has contracted, ongoing, or completed projects in nearly 150 countries, embedding itself in the global economy it seeks to hedge against. A potential protracted conflict would seriously reduce BRI's labor and capital absorption capacity, with ripple effects hitting markets in China. Growth would likely slow significantly.

Second, it is not only that a major geopolitical crisis could generate significant stranded debt overnight. Significant capital would likewise be marooned and inaccessible, triggering profound market effects. Hard assets would become unrecoverable the moment a conflict becomes generalized, whether they be rail companies, ports, or freight terminals.

7. The Repatriation Challenge

In a generalized conflict scenario, several hundred thousand overseas Chinese workers—both skilled and unskilled—would likely be forced back into the domestic labor market. They would need to reintegrate not only into industries like engineering and construction, but also highly skilled digital infrastructure jobs related to China's Digital Silk Road initiative.

This would come at a time when China already faces a 5 percent overall unemployment and 17 percent youth unemployment. Furthermore, the domestic social front is bound to feel the reverberations as well. The new Five-Year Plan (2026–2030) explicitly recognizes the ways that an increasingly unstable international situation impacts domestic development.

8. Persistent Strategic Dependencies

Important external dependences would remain despite fortress positioning. China still imports roughly 70 percent of the oil it consumes, along with significant upstream industrial inputs. It remains reliant on foreign suppliers for advanced industrial inputs, especially in semiconductor manufacturing equipment and high-end chip technology.

While China's vast expansion in renewable energy and battery innovation would help absorb the shock from higher oil prices, it would remain dependent on strategic stockpiles and imports to meet the needs of shipping, petrochemicals, and military operations.

> *"Only a prolonged disruption of the international system would test whether Fortress China can survive the very crisis it was built to withstand."*

9. Testing Fortress China

Can China's domestic economy really substitute for the international system if globalization breaks down? Fortress China cannot truly be battle-tested except under conditions of generalized geopolitical conflict, when overseas BRI networks would shift from assets to liabilities.

The strategy may prove resilient only so long as the global networks on which it continues to rely remain broadly intact. Dual Circulation may reduce China's dependence on foreign markets without actually eliminating its dependence on the international economic system itself. China may find that overseas BRI activity has become a structural component of its domestic economic stability rather than merely a foreign policy instrument.

From Beijing's perspective, Hormuz validates China's fortress strategy. Yet validation is not proof. Only a prolonged disruption of the international system would test whether Fortress China can survive the very crisis it was built to withstand.

If China's domestic economic mechanisms cannot absorb the shock, the social instability that Western analysts have routinely predicted for decades may become a genuine possibility. The defining question in U.S.–China competition is therefore no longer simply how dependent China remains on the international system, but where that dependence now resides—and whether Fortress China can survive the very crisis it was built to withstand.

About the Author: Dr. Jonathan Sherry is a specialist in modern European political history who has held academic and research positions at universities and institutes in Spain, the United Kingdom, and the United States. He has recently published a book on the Spanish Civil War and the Cold War. View more reporting by this author →

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